

Audit Committee – 20 June 2017

Minutes of the meeting of the **Audit Committee** held on **20 June 2017** when there were present:-

Chairman: Cllr A L Williams
Vice-Chairman: M J Lucas-Gill

Cllr C I Black
Cllr D S Efde
Cllr A H Eves

Cllr M Hoy
Cllr T E Mountain
Cllr Mrs L Shaw

APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllrs R R Dray, R Milne and M J Webb.

SUBSTITUTES

Cllr Mrs J R Gooding - for Cllr R R Dray
Cllr J D Griffin - for Cllr M J Webb

OFFICERS PRESENT

J Bostock - Assistant Director, Democratic Services
R Manning - S151 Officer
M Porter - Chief Audit Executive
J Kevany - Principal Auditor
S Worthington - Democratic Services Officer

ALSO PRESENT

C Hewitt - EY (External Audit)

120 MINUTES

The Minutes of the meeting held on 7 March 2017 were approved as a correct record and signed by the Chairman.

121 EXTERNAL AUDITOR REPORT – UPDATES

The Committee considered the report of the Assistant Director, Democratic Services providing details of the findings, recommendations and management response arising from the final audit report for the year ended 31 March 2016.

In response to a Member question relating to the timetable for completion of work associated with the recommendations arising from the final audit report being amended from March 2017 to the end of May 2017, officers confirmed that recommendations 1, 2, 3, 6 and 7 would all have been completed by the end of the week. Responding to a supplementary Member question relating to next year, officers advised that the vast majority of local authorities would struggle to close the accounts by the end of March 2018 as the timetable had been considerably compressed.

However, the Council had employed a new technical accountant in January/February 2017, who would work on the accounts quarterly, rather than at year end, as was current practice.

In response to a further question relating to what the implications would be for the Council if it did not manage to close the accounts within the compressed timetable next year, the external auditor stated that the Audit Commission used to publicly name those authorities who had failed to meet the deadline. Any failure by the Council to meet the deadline for closure of accounts next year could potentially lead to an increase in external audit fees. However, the external auditors would work closely with the Council's Finance team on specific areas that they consider might need further work in order to maximise the possibility of meeting next year's deadline. Officers further emphasised the importance of using existing Council resources to meet the deadline in the most efficient way possible. It was agreed that Members would be provided with clarification by the next meeting around whether a statement would be issued next year, as was previously the case by the Audit Commission, relating to non compliance by local authorities with the closure of accounts deadline and details of any potential punitive measures for non compliance.

Resolved

That the updates provided in the monitoring sheet in respect of external auditor recommendations be noted. (ADDS)

122 ANNUAL AUDIT AND CERTIFICATION FEES 2017/18

The Committee considered the report of the Section 151 Officer advising Members of the proposed annual audit and certification fees for 2017/18.

It was noted that an update would be provided in December/January to the Committee in respect of fees relating to the certification of housing benefit subsidy claim and any potential increase in fees in respect of external audit work on the Green Gateway group accounts.

The external auditor confirmed, in response to a Member question relating to the potential increase in audit fees relating to Green Gateway, that this would relate to the process around consolidation of Green Gateway group accounts into the Council's accounts.

In response to a Member question relating to external audit arrangements post 2017/18, officers advised that EY was the Council's external auditor until the end of the 2017/18 financial year. With effect from 2018/19, however, local authorities had to procure external audit services, where previously this had been organised by the Audit Commission. This Council had, in conjunction with most other local authorities, joined the PSAA (Public Sector Audit Appointments Ltd), who would procure an external audit service from 2018/19 for all member local authorities.

Resolved

That the Annual Audit and Certification Fees 2017/18 Letter be noted.
(S151O)

123 INTERNAL AUDIT ANNUAL REPORT 2016/17

The Committee considered the report of the Assistant Director, Democratic Services providing the Chief Audit Executive's annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control during 2016/17.

In response to a Member question relating to how an audit undertaken of ICT security and access completed in April 2016 would be reviewed, officers advised that Internal Audit would follow up on recommendations made as a result of the audit and this would continue to be monitored annually, given that this was an area of high risk for the Council.

Responding to a Member query relating to report no. 9 relating to an audit of business rates in 2016/17, officers confirmed that all recommendations arising from that audit had been implemented. In response to a supplementary question relating to the increase in respect of small business rate relief, where small business rate relief had not gone up in tandem, officers confirmed that the business rate increase had gone up as of 1 April 2017, whereas the audit that had been conducted of business rates was for 2016/17; this year's audit of business rates would include the recent increase in business rates.

Officers advised, in response to a Member query around paragraph 4.2 on page 8.2 of the report, as to whether internal audits can be instigated when Council projects are mid-stream rather than completed, in cases where potential problems come to light, that Internal Audit has a compliance role and acts as a 'critical friend'. As such, Internal Audit is involved in projects such as the example cited, the ICT project, and are asked for guidance and input in respect of procurement and control systems for such projects. Responding to a supplementary question relating to whether Internal Audit would become involved in cases where there were sizeable overspends on projects, officers advised that, unless contracts were materially altered, there was usually provision within contracts for contract values to be increased, with the agreement of both parties; that depended on the nature of the contract. If, using the ICT contract cited by the Member as an example, it was decided to migrate to the Cloud, the costs for this would have been included in the initial specification, however a more detailed scoping exercise identified the real costs. The Section 151 Officer emphasised that one of his main responsibilities was to ensure that the Council obtained value for money; it was important that Finance and Internal Audit worked closely on this, but the Section 151 Officer was responsible for the financial management of the Council, while Internal Audit was responsible for ensuring that the Council followed all relevant finance and contract procedure rules.

He further stressed that it was within the remit of the Section 151 Officer to understand specific financial risks associated with such contracts/projects and to determine whether the risk was acceptable in terms of achieving value for money. It was not appropriate to ask Internal Audit to step in to look at overspends on projects.

Responding to a Member question on paragraph 3.5 on page 8.1 of the report relating to slippage of audits in 2016/17 being included in the internal audit plan for 2017/18 and whether this had reduced the scope of internal audit work for 2017/18, officers confirmed that the audit plan was always subject to a state of flux, however there was sufficient capacity to deliver outstanding audits from 2016/17, as well as newly identified risk areas for 2017/18.

In response to a supplementary question relating to the proposed audit of the Programme Office during 2017/18, officers advised that this was not perceived as a high risk. In response to a Member concern raised that the Programme Office was responsible for managing the projects that were focused on bridging the Council's budget gap and should therefore be perceived as a high risk area, officers advised that there were other means of monitoring this area, with other mechanisms employed to report on the progress of the various Programme Office projects. Internal Audit would look at the robustness of the mechanisms in place to run the Programme Office in the New Year.

Officers confirmed that the Council had set aside resources in order to buy in external ICT Audit expertise during 2017/18 as there was no in-house expertise in this area.

In response to a Member concern that reports to the Committee did not include equality and diversity implications, officers advised that all report templates included provision for such implications and that there would be merit in reminding report authors of the importance of reporting on equality and diversity implications and considering whether there were any, or no such implications.

Officers advised, in response to a Member query as to why there was no reference to ICT risk in respect of the business continuity risk detailed at the bottom of page 8.20 of the officer report, that recommendations 3 and 4 relating to the audit report on business continuity, detailed on page 8.32 of the report, dealt specifically with the issue of ICT migration risk.

It was noted, in response to a Member concern relating to the potential risk associated with the electronic dissemination of exempt reports, that Members would be provided with details of the current arrangement outside the meeting.

Resolved

That the Chief Audit Executive's opinion on the overall adequacy and effectiveness of the Council systems of governance, risk management and internal control be noted. (ADDS)

124 ANNUAL GOVERNANCE STATEMENT FOR 2016/17

The Committee considered the report of the Assistant Director, Democratic Services presenting an Annual Governance Statement for Members' consideration and approval.

In response to a Member concern that the final paragraph of section two, detailed on page 9.5 of the officer's report appeared to downplay problems associated with the ICT contract, officers emphasised that the report was not indicating that there was a new risk associated with whether the new ICT project might fail, but rather that the Council would be migrating to a Cloud-based program, which might involve a change in governance; accordingly there would be a need for continued audit work in respect of ICT.

The following corrections to the statement were agreed:-

- Page 9.7, first sentence should state: Members of the Development and Licensing Committees undertake mandatory training every year and of the Appeals Committee every two years, as well as induction and refresher training over the course of the year, where necessary.
- Page 9.8, second sentence should state: The Medium Term Financial Strategy (MTFS) (covering the period 2017/18 to 2021/22), including the 2017/18 annual budget and capital strategy, was presented to Council on 14 February 2017.
- Page 9.9, top of page, end of first sentence should be amended from: ...as well as a dedicated briefing to the opposition group to: ...as well as a dedicated briefing to all interested Members.
- Page 9.11, third paragraph, first sentence should read: A Member Investment Board, with representation from both cross-Group and non-Group Members, was established in 2015.

Responding to a Member question relating to the reference to a Counter Fraud champion on page 9.12 of the report, officers confirmed that Katie O'Brien undertook this role.

Officers, in response to a Member query relating to the third paragraph on page 9.14 of the report, were not in a position to confirm whether the industry standard cyber security measures provided by Capita were good, but these did conform to approved industry standards. Officers confirmed, in response to an additional Member question, that the standard was a Microsoft standard, Azure Cloud.

Responding to a Member question around whether the number of exempt reports considered by the Council aligned with statements B and G in the report, which related to openness, transparency and delivering effective accountability, officers emphasised the need, when appropriate, for example, for commercially sensitive information to be considered in private. The Council adhered to policies relating to such information and decisions were made on all such reports by the Council's Monitoring Officer on an individual case basis.

In response to a Member query relating to potential under-resourcing in the area of health and safety, officers advised that there was a gap in provision while a health and safety officer was recruited, but that there was no under-resourcing in Human Resources. Officers confirmed that the health and safety officer post fell within Commercial Services.

Resolved

That the 2017/17 Annual Governance Statement, as amended, be signed by the Leader of the Council and the Managing Director. (ADDS)

125 LOCAL CODE OF CORPORATE GOVERNANCE

The Committee considered the report of the Assistant Director, Democratic Services presenting the updated Local Code of Corporate Governance for Members' approval.

Officers noted a statement by one Member that, given the Audit Committee's responsibility for ensuring the adequacy of governance arrangements and the Council's commitment to open and transparent stakeholder engagement, there should be monitoring of the volume of exempt reports and a check that, wherever possible, reports are open and accessible by all.

In response to a Member question as to whether the Council might be vulnerable to accusations of, for example, not following correct tendering procedures for the procurement of Council services in instances when exempt reports detailing such contractual arrangements were made to Members, officers emphasised that, in the case of the ICT contract a framework tendering process had been used, rather than an open tender process; the tendering process had therefore been conducted with the bidders within the framework in compliance with financial regulations. The determination of whether a report was an exempt one was a separate issue from the requirement for the Council to follow set contract procedure rules. The fact that the report setting out these details was an exempt one - as a result of commercial sensitivity - did not in any way impact on set contract tendering requirements.

A Member raised a specific concern in the context of core principle F relating to the management of risk, detailed on page 10.13 of the officer's report, in respect of figures for a specific project reported to Council for decision, which

some time later, once more detailed work on costs had been conducted, resulted in figures that were substantially different to those included in the original Council report. The Member felt that the budget figures presented to Council for this particular project were without substance and were such that they augmented the budget case to Council. He questioned whether making budgetary decisions at Council based on estimated figures posed a risk to the Authority. The Section 151 Officer emphasised that he signed off all figures that were included in such reports to Council and that he conducted due diligence on all such cases. He ensured that value for money had been obtained, that all risks and financial implications were identified, as far as possible, but it was clearly impossible to predict what might happen in the future. It was inappropriate to question the integrity of the Section 151 role; figures would never be manipulated in order to tell a particular story. He would always expect to see evidence of how figures had been calculated by senior officers, with evidence of, for example, quotations.

The Member confirmed that there had not been any deliberate obfuscation, but when they had originally queried the figures advice was received that these would be resolved in due course. The Member questioned how instances where Councillors might be aware that figures within a report were incorrect should be addressed. The Section 151 Officer advised that Members should raise any such concerns with officers as early as possible prior to report consideration at a Council or Committee meetings and further emphasised that the Section 151 Officer was always available to discuss any such concerns and asked that the Member liaise with him in more detail on this specific example outside the meeting as this was not an issue that had previously been raised with him.

Resolved

That the Local Code of Corporate Governance be agreed. (ADDS)

126 SCHEDULE OF BUSINESS FOR THE AUDIT COMMITTEE 2017/18

The Committee considered the report of the Assistant Director, Democratic Services summarising the proposed schedule of business for the Audit Committee for 2017/18.

Resolved

That the schedule of business for the Audit Committee for 2017/18 be noted. (ADDS)

127 UPDATE ON HEALTH AND SAFETY RISKS 3A AND 3B IN THE CORPORATE RISK REGISTER

The Committee considered the report of the Section 151 Officer providing an update on proposed new risk 3a: there is a serious food, environmental or other incident for which the Council is culpable and risk 3b: there is a serious

health and safety incident for which the Council is culpable for Members' consideration and approval.

It was noted that corporate risk 3 in the corporate risk register had now been separated out into risks 3a and 3b, as above, with a lot of work ongoing in respect of health and safety.

Officers confirmed, in response to a Member question relating to the possibility of a food premises displaying a higher food safety rating at their premises than that granted by the Council, that a response to this question would be provided to Members outside the meeting. In response to a Member question relating to the frequency of food inspections of premises, officers advised that this depended on the level of risk. Members would also be provided with further information on this issue outside the meeting.

Resolved

That the contents of the corporate risk register risks 3a and 3b be noted. (S151O)

The meeting closed at 8.45 pm

Chairman

Date

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